



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Nov-2022 | Report No: PIDC35092



BASIC INFORMATION

A. Basic Project Data

Country Peru	Project ID P179214	Project Name Peru: Enabling a Green and Resilient Development DPF II (P179214)	Parent Project ID (if any) P177765
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Jul 07, 2023	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Republic of Peru	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) transition towards a greener economy in selected sectors

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Peru achieved remarkable growth and poverty reduction over the two decades prior to the COVID-19 pandemic, but progress has slowed, and the Covid-19 pandemic further affected the economy. Between 2002 and 2013, Peru grew at an average annual rate of 6.1 percent, driven by the commodity boom coupled with solid macroeconomic management.



The poverty rate fell from 59 percent in 2004 to 21 percent in 2019. In the six years prior to the pandemic, average growth rates declined to half of what they were, as productivity and job growth slowed. Between 2020 and 2021 during the COVID-19 pandemic, accumulated growth was less than one percent, despite rising export prices. The momentum to pursue important reforms for the country also stalled. Peru's GDP is expected to expand by about 2.7 percent in 2022, remaining below its pre-pandemic trend. GDP growth this year will be mainly driven by higher export volumes, while domestic demand will gradually decelerate. Long-term effects of the pandemic could be significant, through the impacts of school closures on future labor productivity. The fiscal deficit is expected to slightly increase in 2023 but would remain in line with fiscal rules. The economic outlook is subject to significant uncertainty and risks, but important mitigation factors exist. Overall, Peru's macroeconomic policy framework is deemed adequate and sustainable over the medium term.

The country is highly vulnerable to natural hazards and climate change, requiring enhanced efforts to move towards a more resilient and greener development pathway. Peru ranks in the top 24 percent of most vulnerable countries to the impact of extreme weather events,¹ while around 46 percent of the national territory is classified as having high to very high vulnerability to natural hazards.² Global climate change is also projected to have significant macroeconomic implications for Peru.³ Earthquakes, landslides, droughts, and floods together already cause average annual asset losses of 2 percent of GDP and welfare losses equivalent to 5.2 percent of GDP, and this is expected to increase in the absence of further adaptation investments. The GoP has reinforced its commitment to transition towards a low-carbon economy and build resilience to natural events. Peru adopted a framework law on climate change and established a National Registry of Mitigation Measures (RENAMI).⁴ The Ministry of Environment also approved the National Adaptation Plan in 2021 which provides a roadmap for strategic actions across key sectors, submitted its second National Determined Contributions (NDC - 2020) and is currently finalizing the consultation process for the updated National Strategy for Climate Change. The recently approved PEDN 2050, outlines key objectives including achieving a more sustainable environmental management, implementing measures to tackle climate change, and having a sustainable development path.

Relationship to CPF

The proposed operation is aligned with the forthcoming Peru Country Partnership Framework (CPF) FY23–FY27 and the Performance and Learning Review FY17–FY21 (Report No. 135267-PE, discussed by the Board of Executive Directors on April 25, 2019). Reforms supported fit within two of the three High Level Objectives (HLO) that are presented in the forthcoming CPF and the recently completed Strategic Country Diagnostic (SCD) Update: Improved access to quality public services across the territory (HLO2), and Increased resilience to shocks (HLO3). The operation also supports the cross-cutting issues of increased state efficiency, delivering quality services, and coping with shocks. It is also closely aligned with the World Bank Group's: (i) 2021-2025 Climate Change Action Plan supporting reforms to transition in three key systems: energy, cities, and transport; and adapt through enhanced disaster risk management (DRM), (ii) the strategic frameworks to move "From Crisis Response towards Green, Resilient and Inclusive Development" (GRID) and "Navigating Multiple Crises, Staying the Course on Long-Term Development: The World Bank Group's Response to the Crises Affecting Developing Countries". This operation also complements the Bank's ongoing and pipeline program, including the Peru Sustainable and Inclusive Growth DPF-DDO (P178591) which supports Government policies aimed at promoting sustainable and efficient expenditures and fostering competitiveness and green growth.

¹ Germanwatch – Global Climate Risk Index 2019

² MINAM. 2011. Descriptive Memoir of the Physical Vulnerability Map of Peru. <http://bvpad.indeci.gob.pe/doc/pdf/esp/doc1851/doc1851-contenido.pdf>

³ World Bank. 2022. Country Climate and Development Report (CCDR) Peru

⁴ Law No. 30754, April 18th, 2021

⁵ Supreme Decree No. 013/2019, MINAM



C. Proposed Development Objective(s)

The Program Development Objective is to support Government policies to: (i) strengthen the foundations for a green economic recovery, (ii) build resilience and enhance climate change adaptation and (iii) transition towards a greener economy in selected sectors.

Key Results

The proposed operation promotes a sub-set of actions aimed at (i) improving the investment management framework with a focus on efficiency and sustainability, (ii) strengthening climate change adaptation and disaster risk management, (iii) promoting a more resilient and greener urban development, (iv) promoting a greener and more efficient urban transport services, (v) promoting renewable energy services for all and (vi) promoting energy efficiency.

D. Concept Description

The proposed Second Enabling a Green and Resilient Development Policy Financing with a Deferred Drawdown Option (DPF-DDO) for US\$500 million, is the second operation in a programmatic series of two. The first operation (P177765), for US\$500 million, was approved by the World Bank's Board of Executive Directors in March 2022 and became effective in October 2022. It is organized around the same three pillars:

Pillar 1 supports actions to strengthen the foundations for a greener economic recovery. It includes policy actions to (i) facilitate the progressive implementation of Building Information Modeling (BIM) methodologies and guidelines for public works planning and execution, (ii) incorporate climate externalities using the social price of carbon for public investment appraisal, and (iii) enhance the National Environmental Impact Assessment System (SEIA). The operation will also continue to monitor the implementation of the sustainable green bond framework, one of the reforms supported under the first DPF, which aimed at supporting the expansion of green finance to mobilize capital at scale for climate action.

Pillar 2 supports actions to build resilience and enhance climate change adaptation. It does so by supporting the GOP's efforts to mainstream climate change adaptation risks within the national DRM policies and operational plans; and strengthen the capacities of subnational government for managing climate and non-climate related hazards. It includes policy actions to (i) operationalize the National DRM Policy 2050 through the 2030 Disaster Risk Management Plan, and (ii) promote the incorporation of climate change adaptation and DRM into land use planning instruments through the enactment of the Sustainable Urban Development Law's regulations.

Pillar 3 supports actions to transition towards a greener economy in selected sectors. It supports programs to promote the development of more inclusive and efficient transit systems in cities, improving energy efficiency standards for energy equipment and buildings and promoting the shift towards lower-carbon technologies for electricity generation. It includes policy actions to (i) establish a national registry for sustainable buildings to measure progress in achieving climate change commitments linked to the new Technical Code for Sustainable Construction, (ii) promote a greener, safer and more efficient urban transport system in the Lima Metropolitan Area (LMA) through the approval of a law that introduced new regulations for bus transit service provision, including incentives to accelerate the renewal of the bus fleet with low carbon technologies, and a long-term urban development plan to make more efficient and safer traffic management, prioritizing pedestrians, cyclists and transit in the Lima-Callao Metropolitan area, (iii) facilitate the expansion of renewables to close the electricity access gap in remote areas and promote the greening of the electricity grid through technology neutral auctions and, (iv) promote energy efficiency in the public and private sector, including legislation on energy efficiency labeling for energy equipment and establishing MEPS.



E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

This program is expected to have positive impacts on poverty reduction through the creation of new jobs, resilience to climate vulnerability and low-carbon development. The reforms under the first pillar, aimed at facilitating green public projects and promoting efficiency and sustainability of investments are expected to have positive welfare effects. As low-income population is more exposed to disaster risk, these policies can reduce vulnerability to future shocks among the poor and reduce inequalities. Furthermore, reducing overall costs may allow to redirect public funds for other social investments and provision of public services. Moving to low-carbon development will also have indirect positive welfare effects through higher labor productivity and improved health outcomes. Prior action 3 in the second pillar, through an increase in climate adaptation and mitigation action because of the PLANAGERD, may also help reduce households' and firms' vulnerability to future shocks. The Sustainable Urban Development Law and its regulations (Prior Action 4) will improve urban planning, promote more resilient urban growth, and support equitable access to adequate living conditions. Thus, it would help reduce inequality and vulnerability to disaster risks, as urban growth increasingly takes place in areas exposed to natural hazards, and a large part of homes are built from low-resistant materials, especially most informal houses.

Policies corresponding to the third pillar seeking to support the transition towards a greener economy in selected sectors are expected to have welfare-enhancing effects. Prior Action 5 and 6 promoting resilient residential buildings and green construction practices for new housing, as well as prioritizing green urban transport are expected to result in positive welfare effects due to improved health outcomes and lower out of pocket health expenditures for households. Prior Actions 7 and 8 promoting renewable energy services for all and bringing new entrants to the electricity market is expected to reduce multidimensional poverty, improve health outcomes due to lower emissions, and potentially generate savings for household and firms due to decreasing costs. Prior Action 9 introducing energy performance standards may reduce poverty depending on the energy savings across the welfare distribution.

Environmental, Forests, and Other Natural Resource Aspects

The policies and measures supported through this operation are expected to have a significantly positive impact on Peru's environment, forests, and other natural resources. Actions under Pillar 1 are expected to result in a positive environmental impact due to the promotion of green and resilient development of infrastructure, resulting in a more climate-sensitive investment pipeline, and increased environmental requirements and control in investment projects. Positive environmental impacts are also expected from those actions under Pillar 2 that aim to embed climate and disaster resilience through urban planning approaches that protect vulnerable ecosystems. Prior Action 5, which deals with creating the registry of the Technical Code for Sustainable Construction, is expected to promote the reduction of GHG emissions and enhance climate change adaptation in the long term. Positive environmental effects and reduction of GHG emission and air pollutants are expected from Prior Action 6 and 7. Even though the latter could potentially lead to negative environmental effects, including the impacts from resulting E-waste from the deployment of energy infrastructure, the national legal framework incorporates the necessary mitigation measures for their adequate management, as Peru developed management and disposal regulations (NTP 900.064; 2012) and is receiving technical support from multilateral institutions to align it with international best practices.



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APPROVAL

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Approved By

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